



April 12, 2006

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Representative of  
General Public

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Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

**TO:** Local Agency Formation Commission

**FROM:** Executive Officer  
Assistant Executive Officer

**SUBJECT:** Proposed LAFCO Budget for Fiscal Year 2006-2007

## BACKGROUND

Government Code Section 56381(a) requires the Commission to adopt a proposed budget for all LAFCO operations by May 1<sup>st</sup> of each year. Following adoption, the proposed budget is distributed for review and comment to the Board of Supervisors, each city, the City Selection Committee, each independent special district, and the Independent Special Districts of Orange County (ISDOC) Selection Committee. The final LAFCO budget is required to be adopted by the Commission no later than June 15, 2006.

During last year's budget cycle, the Commission adopted a three-year budget which covers (FY) 2005-2006, 2006-2007 and 2007-2008. The three-year budget incorporates a six percent (6%) increase to our funding agencies (the County, cities and special districts) for each of the three fiscal years (see Table 1 below). The proposed FY 2006-2007 LAFCO budget is consistent with the three-year budget adopted by the Commission in April 2005.

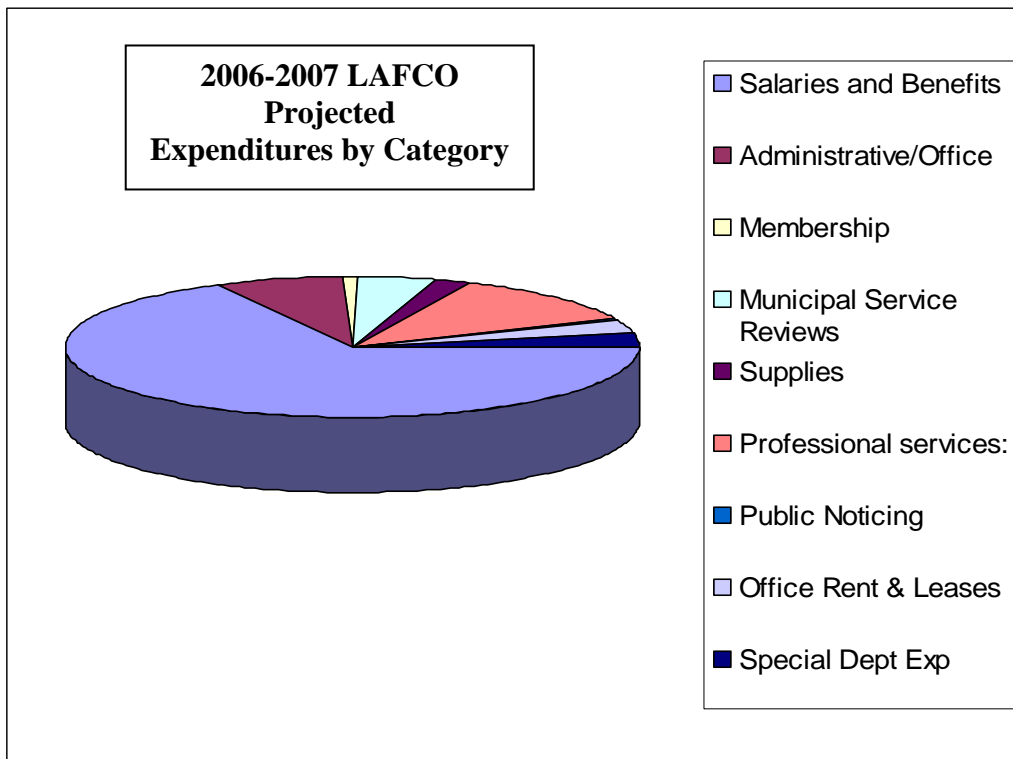
**Table 1: Approved Increases to Funding Agency Contributions**

Fiscal Year	2005/2006	2006/2007	2007/2008
Total Funding Contribution	\$986,775	\$1,045,982	\$1,108,741
County, City, Special District Share	\$328,925	\$348,661	\$369,580
Percent Increase	-	6%	6%

For your Commission's consideration, the proposed FY 2006-2007 LAFCO budget is presented as *Attachment 1* of this staff report. LAFCO's Executive Committee, consisting of Commissioners Bob Bouer, Bill Campbell and Susan Wilson, met with LAFCO staff on April 6, 2006 to discuss and review the proposed budget.

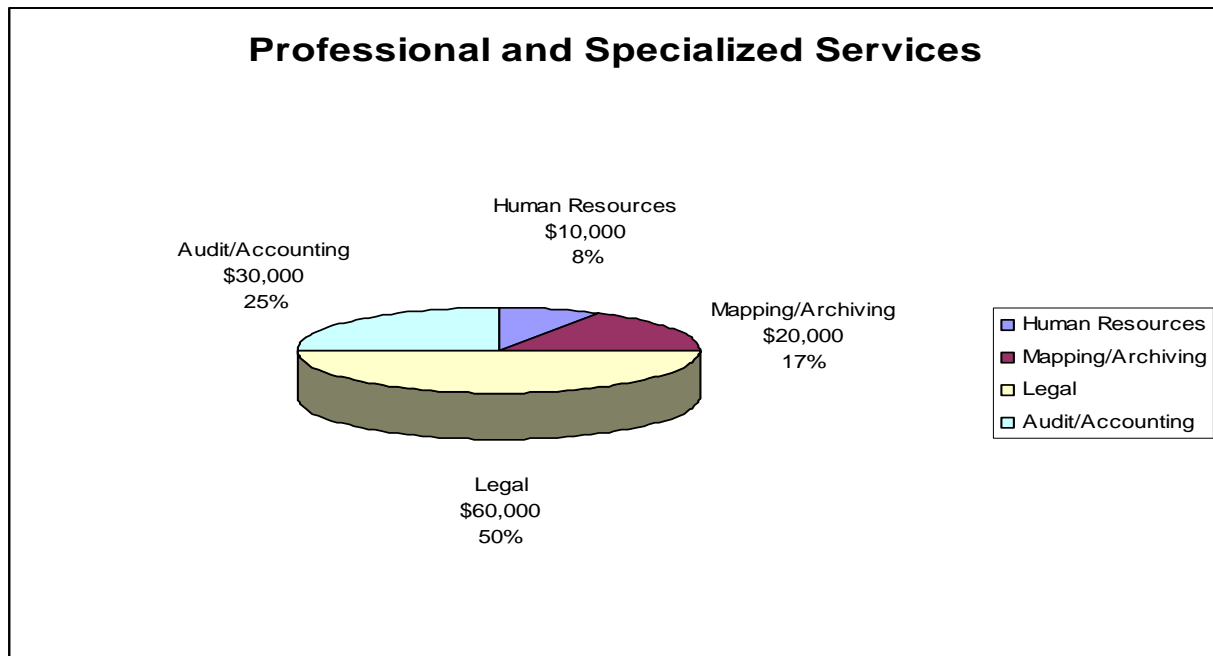
## 2006-2007 BUDGET OVERVIEW

Staff salaries and benefits represent the highest expenditure category within the proposed budget, representing approximately 69% of the projected FY 2006-07 expenditures. Staff was able to reduce agency retirement costs in FY 2006-07 by taking advantage of a "prepayment option" offered by the Orange County Retirement System (OCERS). By paying the agency's employer contribution for FY 2006-2007 in advance, LAFCO was eligible to receive a 7.5% discount in the total agency contributions amounting to approximately \$8,500 in annual savings.



The "Professional and Specialized Services" category represents the largest services and supply account, totaling \$120,000. It includes bookkeeping and accounting/auditing services and contracted services for legal counsel, human resources and

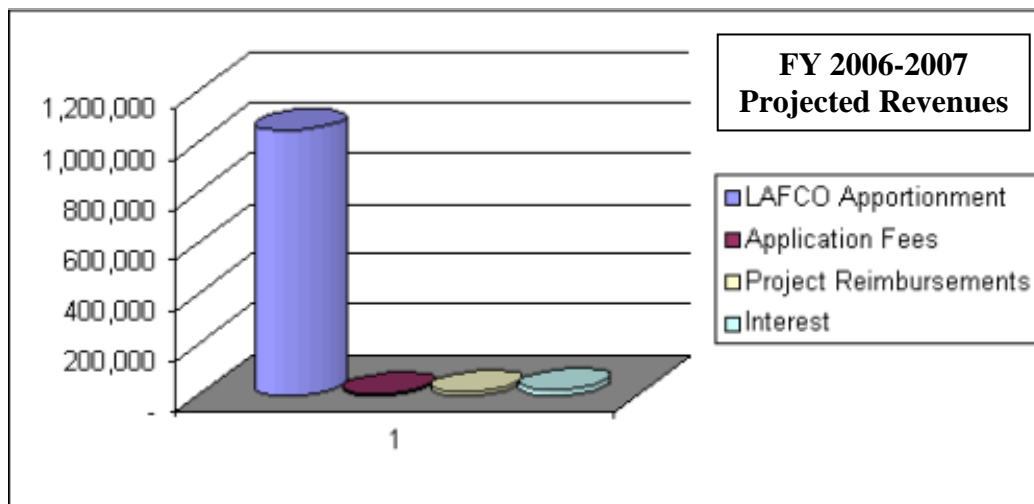
mapping/GIS/archiving services. This is a \$20,000 budget reduction over last year's professional services category because the majority of the archiving project costs were incurred during FY 2005-2006. The percentage and distribution of these costs are depicted below:



### **Revenues**

Projected FY 2006-2007 LAFCO revenues total \$1,083,982. Ninety-six percent (96%) of the agency's revenue come from contributions from our funding agencies, the County, cities and special districts. Approximately two percent (2%) of the revenue is generated through bank and investment interest. The remaining two percent (2%) is generated through application fees and project reimbursements from applicants.

Although LAFCO converted to a "time and materials" fee schedule in July 2005, very little agency revenue is generated from application fees. This trend is indicative of the changing nature and the type of applications being processed by Orange County LAFCO. The days of large annexations and incorporations within Orange County are, for the most part, behind us. The majority of the applications OCLAFCO processes today are related to Commission-initiated municipal service reviews and sphere of influence updates - projects for which staff time and materials are not reimbursable.



The proposed FY 2006-2007 LAFCO budget identifies expenditures totaling \$1,045,982. Of this amount, \$38,000 is paid through application fees, and interest earnings. The balance, \$1,045,982, is equally divided between the County, cities and special districts, each paying \$348,661. Staff, using the cost allocation formulas previously adopted by the Independent Special Districts of Orange County and the Orange County League of Cities, calculated individual city and special district contributions for the proposed FY 2006-2007 budget. City and special district contribution summaries are included in *Attachments 3 and 4*, respectively.

#### City Allocations

The cities' formula allocates individual city costs based on a formula using the size and population of a city. Large cities with significant populations, such as Anaheim, Irvine and Santa Ana, for example, pay a higher contribution than do smaller cities with less population. Cumulatively, the 34 cities will pay an increase of approximately \$20,000 over the FY 2005-2006 cities' contribution. This increase is spread out among the County's 34 cities. Individual city increases for FY 2006-2007 range from a \$52 increase for the City of Villa Park to approximately \$2,000 for the City of Irvine.

#### Special District Allocations

The special districts' allocation formula, originally adopted by the Independent Special Districts of Orange County (ISDOC) in 2001 and reaffirmed in August 2005, distinguishes between non-enterprise and enterprise special districts. Non-enterprise districts pay a fixed cost ranging from \$250 to \$2,000 annually. Allocations for non-enterprise districts are capped and do not increase.

The ISDOC formula for enterprise districts uses a tiered formula based on the districts' operating revenues as reported in the annual State Controller's Report. Districts are placed in one of five categories (A, B, C, D or E) based on the amount of their operating revenues. Each category pays a fixed percentage of the overall LAFCO special district allocation ranging from 1.7% for "A" districts to 10% for "E" districts (see *Table 2* below).

***Table 2: Enterprise Special District Allocation Categories\****

Category	Enterprise Special District Operating Revenues	% Contribution by Each District
A	Less than \$1 million	1.7
B	\$1million - \$5 million	3.7
C	\$5million - \$10 million	5.6
D	\$10 million - \$25 million	7.6
E	\$25 million +	10

*\*Per August 2005 ISDOC Allocation Formula*

Cumulatively, the 27 special districts will pay an increase of approximately \$20,000 over the FY 2005-2006 special districts' contributions. Individual special district allocations for FY 2006-2007 are listed on *Attachment 4*.

#### Trabuco Canyon and East Orange County Water Districts

Using the adopted ISDOC allocation formula, 2006-2007 increases in LAFCO contributions for enterprise special districts range from \$226 for "A" districts, \$411 for "B" districts, \$586 for "C" districts, \$771 for "C" districts and \$993 for "E" districts. Two districts, Trabuco Canyon Water District and East Orange Water District, however, will incur significant increases in LAFCO contributions for FY 2006-2007 over the prior fiscal year as indicated on *Table 3*, below.

***Table 3: Trabuco Canyon and EOWD Contributions***

DISTRICT	O5/06 LAFCO Contribution	06/07 LAFCO Contribution	06/07 Increase
Trabuco Canyon Water District	\$16,541	\$23,510	<b>\$6,969</b>
East Orange County Water District	\$10,929	\$16,957	<b>\$6,028</b>

Operating revenues for Trabuco Canyon Water District, as reported in the State Controller's Report, exceeded \$10 million which moves the district from a "C" to a "D" category. Similarly, operating revenues for the East Orange County Water District exceeded \$5 million, moving the district from a "B" to a "C" category. Of the enterprise special districts, Trabuco Canyon and East Orange County Water Districts are the only two districts to move to a higher category from FY 2005-2006 to FY 2006-2007. This has resulted in these two districts paying a disproportionate share (65%) of the overall LAFCO special district allocation increase for FY 2006-2007. Shifts in district categories were not anticipated when ISDOC adopted their original allocation formula.

In allocating costs among special districts, Government Code Section 56381(c) states that "... it is the intent of the Legislature that no single district or class or type of district shall bear a disproportionate amount of the district share of costs." LAFCO staff has contacted both districts to determine if there were errors in the revenue amounts as reported by the State Controller. If the revenue amounts are correct, LAFCO will work with ISDOC to more equitably spread the 2006-2007 LAFCO costs among all of the enterprise special districts. Alternatives to the current formula are available, including:

- Maintaining the existing categories used in FY 2005-2006 for the enterprise special districts. This option would change the existing ISDOC formula so that adjustments to district categories are no longer tied to changes in district operating revenues, but could be made subject to periodic ISDOC review.
- Spreading special district costs according to the relative populations served by each district with a pre-determined cap on larger districts (e.g., MWD and OCWD) so no single district would pay a disproportionately large share of the costs. Government Code Section 56381(B) allows the use of an alternative method to distribute special district costs if that formula is approved by a majority of the agencies representing a majority of their combined populations. ISDOC did re-approve the current formula in 2005.

## CONCLUSION

The proposed LAFCO budget for 2006-07 is consistent with the three-year budget adopted by the Commission in April 2005. It maintains existing staffing levels to carry out the Commission's work plan adopted in the January 2006 Strategic Plan and balances revenues and expenditures without relying on project reserves.

## RECOMMENDATIONS

Staff recommends that the Commission:

1. Adopt the Draft FY 2006-2007 Local Agency Formation Commission budget, and direct the Executive Officer to distribute the proposed budget for review and comment to the Board of Supervisors, each city, the City Selection Committee, each independent special district and the Independent Special Districts of Orange County (ISDOC) Selection Committee.
2. Direct staff to work with the Independent Special Districts of Orange County (ISDOC), the Trabuco Canyon Water District and the East Orange County Water District to determine if agreement can be reached to redistribute LAFCO costs among the enterprise special districts for FY 2006-2007.
3. Direct staff to schedule a public hearing for consideration and adoption of the final FY 2006-2007 LAFCO budget at the May 10, 2006 Commission meeting.

Respectfully submitted,

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JOYCE CROSTHWAITE  
Executive Officer

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CAROLYN EMERY  
Project Manager

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BOB ALDRICH  
Assistant Executive Officer

Attachments:

1. Proposed LAFCO Budget for FY 06-07
2. Definitions of Budget Categories
3. Special District Cost Allocations for FY 06-07
4. City Cost Allocations for FY 06-07

**Attachment 1**  
**Draft LAFCO Budget**  
**Fiscal Year 2006/2007**

	FY 04/05 Actual	FY 05/06 Projected	FY 05/06 Approved Budget	FY 06/07 Proposed Budget
<b>Revenues:</b>				
Prior year's unspent budget	\$ -	-	58,014	-
4000 LAFCO Apportionment	930,920	986,775	986,775	1,045,982
4050 Application Fees	64,229	22,792	18,000	6,000
Project Reimbursements	-	-	-	12,000
4200 Interest	10,593	22,366	14,000	20,000
4150 Miscellaneous Revenue	6,216	477	-	-
<b>Total Revenues</b>	<b>1,011,958</b>	<b>1,032,410</b>	<b>1,076,789</b>	<b>1,083,982</b>
<b>Expenditures:</b>				
Salaries and Benefits	691,151	705,928	702,322	744,804
5150 Information Technology	3,680	9,228	-	4,000
5151 Telephone	5,612	698	5,700	1,000
5200 County charges	2,997	5	3,500	5,000
5250 Insurance	10,378	9,319	15,841	17,277
5301 Repairs and maintenance	2,368	2,143	4,300	3,000
5302 Utilities	1,737	-	-	-
5350 Membership	8,186	7,498	10,000	10,000
5400 Municipal Service Reviews	55,922	51,850	68,000	50,000
5450 Office equipment/supplies	28,057	17,625	20,000	20,000
Professional services:		-		
5510 Legal	58,395	68,107	60,000	60,000
5520 Audit/Accounting	21,961	21,672	30,000	30,000
5530 Human Resources	15,078	-	10,000	10,000
5535 Mapping	1,755	14,373	40,000	20,000
5540 Other professional	12,947	22,346	-	10,000
5550 Investment Admin Fees	455	139	300	-
5600 Public Noticing	4,090	20,241	6,000	6,000
5625 Postage	-	3,487	2,200	2,200
5650 Office Rent & Leases	32,091	32,714	40,526	31,845
5700 Special Dept Exp	16,769	12,686	25,000	26,000
Staff Training	-	-	-	5,000
5800 Transpo/Travel/Registration	16,430	21,840	25,000	20,000
5850 Commission Mtg.Expenses	7,205	10,737	8,100	6,000
<b>Subtotal Services &amp; Supplies</b>	<b>306,113</b>	<b>326,705</b>	<b>374,467</b>	<b>337,322</b>
<b>Total Expenditures</b>	<b>997,264</b>	<b>1,032,633</b>	<b>1,076,789</b>	<b>1,082,126</b>
<b>Revenues over expenditures</b>	<b>\$ 14,694</b>	<b>(223)</b>	<b>-</b>	<b>1,856</b>

## **ATTACHMENT 2**

### **LAFCO Budget Expenditure Categories**

The following summarizes what is included in each of the expenditure categories used in the proposed FY 2006-2007 LAFCO Budget:

#### **Salaries and Benefits**

These accounts are used to pay for LAFCO employee salaries and benefits, including retirement, unemployment insurance, health and dental insurance, workers compensation and Medicare.

#### **5150 Information Technology**

This account is used to pay for the maintenance and repair costs of office computers, modem lines and Internet access. LAFCO contracts with County IT services for this function.

#### **5151 Telephone**

Office phone charges are paid out of this account.

#### **5200 County Charges**

LAFCO contracts with the County to provide internal “pony” mail service within County departments, payroll services, warehouse storage for LAFCO files and records, and billing and collection of County, city and special district allocations.

#### **5301 Repairs and Maintenance**

This account is used to pay for repairs and maintenance to the LAFCO offices.

#### **5350 Membership**

CALAFCO and OCLS membership fees are paid out of this account.

#### **5400 Municipal Service Reviews**

This account pays for fiscal, environmental and/or facilitation consultants needed for the completion of Municipal Service Reviews.

#### **5450 Office Equipment/Supplies**

This category provides for the purchase of computer and office supplies/equipment and software for on-going office automation requirements.

#### **5510 – 5540 Professional Services**

This category covers the costs for LAFCO legal counsel through the law offices of Best, Best & Krieger and bookkeeping and accounting services through Conrad Business Services, Inc. This account also pays for a certified public accounting firm to conduct mandated annual audits of LAFCO’s financial statements and consultant assistance to implement LAFCO’s archiving and GIS mapping programs.

**5600 Public Noticing**

Legal publication costs for Commission-initiated projects (e.g., municipal service reviews, annual budget adoption, etc.) are paid through Account 5600.

**5625 Postage**

This account pays for mail postage when distributing LAFCO correspondence, invoices, letters, staff reports and other documents.

**5650 Office Rent & Leases**

LAFCO leases its office space from the County. LAFCO also leases a copier and postage meter. Office rent and lease payments for the copier and postage meter are paid out of this account.

**5700 Special Department Expense**

This account pays for Commissioner meeting stipends, mileage, parking, and staff training expenses.

**5800 Transportation/Travel/Registration**

Funds from this account category are used to pay for registration and travel expenses for commissioners and staff to the CALAFCO annual conference and the CALAFCO annual workshop.

**5850 Commission Meeting Expenses**

Funds to pay for coffee, water, nameplates and other miscellaneous items used during Commission meetings are paid for out of this fund.

**Attachment 3  
Special District  
FY 06-07 Allocations**

District	Category	Percent	ISDOC Formula Calculation*	Adjusment	Adjusted 06-07 LAFCO Costs
Surfside Colony Stormwater	N-E 1	--	\$250	\$0	\$250
Surfside Colony CSD	N-E 1	--	\$250	\$0	\$250
Capistrano Bay CSD	N-E 2	--	\$500	\$0	\$500
Rossmoor CSD	N-E 2	--	\$500	\$0	\$500
Silverado-Modjeska Rec. & Park	N-E 2	--	\$500	\$0	\$500
Rossmoor/Los Alamitos Sewer	N-E 2	--	\$500	\$0	\$500
Three Arch Bay CSD	N-E 3	--	\$1,000	\$0	\$1,000
Placentia Library	N-E 3	--	\$1,000	\$0	\$1,000
Buena Park Library	N-E 4	--	\$2,000	\$0	\$2,000
Orange County Vector Control	N-E 4		\$2,000	\$0	\$2,000
Orange County Cemetery	N-E 4		\$2,000	\$0	\$2,000
<b>Total Non-Enterprise Districts</b>			<b>\$10,500</b>	<b>\$0</b>	<b>\$10,500</b>
Emerald Bay CSD	A	1.7	\$5,570.24	-\$1,391.63	\$4,178.61
Sunset Beach Sanitary	A	1.7	\$5,570.24	-\$1,391.63	\$4,178.61
Midway City Sanitary	B	3.7	\$12,123.46	-\$1,391.63	\$10,731.83
Serrano Water	B	3.7	\$12,123.46	-\$1,391.63	\$10,731.83
East Orange County Water	C	5.6	\$18,349.02	-\$1,391.63	\$16,957.39
Costa Mesa Sanitary	C	5.6	\$18,349.02	-\$1,391.63	\$16,957.39
Trabuco Canyon Water & Sewer	D	7.6	\$24,902.24	-\$1,391.63	\$23,510.61
Yorba Linda Water & Sewer	D	7.6	\$24,902.24	-\$1,391.63	\$23,510.61
South Coast Water & Sewer	D	7.6	\$24,902.24	-\$1,391.63	\$23,510.61
El Toro Water & Sewer	D	7.6	\$24,902.24	-\$1,391.63	\$23,510.61
Mesa Consolidated Water	D	7.6	\$24,902.24	-\$1,391.63	\$23,510.61
Irvine Ranch Water & Sewer	E	10	\$32,766.10	-\$1,391.63	\$31,374.47
Moulton Niguel Water & Sewer	E	10	\$32,766.10	-\$1,391.63	\$31,374.47
MWDOC Water	E	10	\$32,766.10	-\$1,391.63	\$31,374.47
OCWD Water	E	10	\$32,766.10	-\$1,391.63	\$31,374.47
Santa Margarita Water & Sewer	E	10	\$32,766.10	-\$1,391.63	\$31,374.47
<b>Total Enterprise Districts</b>		<b>110</b>	<b>360,427.10</b>	<b>-22,266.08</b>	<b>\$338,161.02</b>

TOTAL NON-ENTERPRISE DISTRICT CONTRIBUTION

10,500

TOTAL ENTERPRISE DISTRICT CONTRIBUTION

338,161

**TOTAL '06-'07 LAFCO CONTRIBUTION**

**\$348,661**

Attachment 4  
City  
FY 06-07 Allocations

<i>City</i>	<i>Jan. 1, 2004 Population<sup>1</sup></i>	<i>Area Sq. Miles</i>	<i>2/3rd Allocation Based on Population</i>	<i>%</i>	<i>1/3rd Allocation Based on Sq. Miles</i>	<i>%</i>	<i>Combined City Allocation</i>
Aliso Viejo	43,879	6.9	\$ 3,579.09	1.53%	\$ 1,566.53	1.36%	\$ 5,145.62
Anaheim	337,440	50.3	\$ 27,454.57	11.75%	\$ 11,419.77	9.93%	\$ 38,874.34
Brea	37,962	11.1	\$ 3,147.14	1.35%	\$ 2,520.07	2.19%	\$ 5,667.21
Buena Park	80,617	10.1	\$ 6,445.19	2.76%	\$ 2,293.03	1.99%	\$ 8,738.22
Costa Mesa	111,512	15.5	\$ 9,019.09	3.86%	\$ 3,519.01	3.06%	\$ 12,538.11
Cypress	47,644	6.9	\$ 3,884.87	1.66%	\$ 1,566.53	1.36%	\$ 5,451.40
Dana Point	36,247	6.8	\$ 2,923.02	1.25%	\$ 1,543.83	1.34%	\$ 4,466.84
Fountain Valley	56,268	9.6	\$ 4,559.87	1.95%	\$ 2,179.52	1.89%	\$ 6,739.39
Fullerton	131,574	22.6	\$ 10,786.66	4.62%	\$ 5,130.95	4.46%	\$ 15,917.61
Garden Grove	169,911	17.9	\$ 13,678.27	5.86%	\$ 4,063.89	3.53%	\$ 17,742.16
Huntington Beach	196,954	27.3	\$ 15,961.74	6.83%	\$ 6,198.00	5.39%	\$ 22,159.75
Irvine	164,923	55.5	\$ 14,374.82	6.15%	\$ 12,600.34	10.95%	\$ 26,975.16
Laguna Beach	24,589	7.8	\$ 1,985.17	0.85%	\$ 1,770.86	1.54%	\$ 3,756.03
Laguna Hills	32,875	6.6	\$ 2,643.79	1.13%	\$ 1,498.42	1.30%	\$ 4,142.21
Laguna Niguel	65,092	14.7	\$ 5,257.37	2.25%	\$ 3,337.39	2.90%	\$ 8,594.76
Laguna Woods	18,208	3.0	\$ 1,460.59	0.63%	\$ 681.10	0.59%	\$ 2,141.69
La Habra	61,188	7.3	\$ 4,911.13	2.10%	\$ 1,657.34	1.44%	\$ 6,568.47
Lake Forest	77,332	16.8	\$ 6,203.01	2.66%	\$ 3,814.16	3.31%	\$ 10,017.17
La Palma	15,954	2.0	\$ 1,280.99	0.55%	\$ 454.07	0.39%	\$ 1,735.06
Los Alamitos	11,817	4.3	\$ 954.30	0.41%	\$ 976.24	0.85%	\$ 1,930.55
Mission Viejo	98,943	17.4	\$ 7,807.19	3.34%	\$ 3,950.38	3.43%	\$ 11,757.57
Newport Beach	79,987	25.2	\$ 6,608.49	2.83%	\$ 5,718.97	4.97%	\$ 12,327.45
Orange	134,523	23.6	\$ 10,951.95	4.69%	\$ 5,357.98	4.66%	\$ 16,309.93
Placentia	49,097	6.6	\$ 4,000.95	1.71%	\$ 1,498.42	1.30%	\$ 5,499.37
Rancho Santa Margarita	48,810	13.1	\$ 3,915.56	1.68%	\$ 2,974.13	2.58%	\$ 6,889.70
San Clemente	60,701	18.0	\$ 5,194.72	2.22%	\$ 4,086.60	3.55%	\$ 9,281.32
San Juan Capistrano	35,215	14.1	\$ 2,868.40	1.23%	\$ 3,201.17	2.78%	\$ 6,069.56
Santa Ana	347,237	27.3	\$ 27,961.81	11.97%	\$ 6,198.00	5.39%	\$ 34,159.82
Seal Beach	24,921	12.2	\$ 2,014.19	0.86%	\$ 2,769.80	2.41%	\$ 4,783.99
Stanton	38,411	3.1	\$ 3,085.76	1.32%	\$ 703.80	0.61%	\$ 3,789.57
Tustin	69,754	11.0	\$ 5,634.63	2.41%	\$ 2,497.36	2.17%	\$ 8,131.99
Villa Park	6,206	2.1	\$ 495.32	0.21%	\$ 476.77	0.41%	\$ 972.09
Westminster	90,643	10.2	\$ 7,335.96	3.14%	\$ 2,315.74	2.01%	\$ 9,651.70
Yorba Linda	62,678	19.9	\$ 5,217.22	2.23%	\$ 4,517.96	3.93%	\$ 9,735.18
<b>TOTALS</b>	<b>2,938,201</b>	<b>506.8</b>	<b>\$ 233,602.87</b>	<b>100.00%</b>	<b>\$ 115,058.13</b>	<b>100.00%</b>	<b>\$ 348,661.00</b>

<sup>1</sup> County of Orange Geomatics/Land Information Systems Boundary Unit